SASKATCHEWAN

Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

Understanding the Finances of the Government

2005 Report
Volume 2

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

Telephone: (306) 787-6398
Fax: (306) 787-6383

E-mail: info@auditor.sk.ca
Website: http://www.auditor.sk.ca/

ISSN 0581-8214

This Report and previous Reports are available on the Internet at http://www.auditor.sk.ca/

Vision

We envision effective, open, and accountable government.

Mission

We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability.

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

SASKATCHEWAN

105-06899/

Phone: (306) 787-6366
Fax: (306) 787-6383
Internet e-mail: fwendel@auditor.sk.ca

August 19, 2005

The Honourable P. Myron Kowalsky
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2005 Report - Volume 2*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

Respectfully yours,

Fred Wendel, CMA, CA
Provincial Auditor

/dd

Foreword

I am pleased to present my *2005 Report – Volume 2* to the Legislative Assembly. This Report focuses on understanding the finances of the Government. Later this year, I will present Volume 3. Volume 3 will include the results of our work at government organizations with years ended March 31, 2005.

Regina, Saskatchewan
August 19, 2005

Fred Wendel, CMA, CA
Provincial Auditor

Understanding the Finances of the Government

Executive summary 1

Glossary 3

Key financial and economic indicators for Saskatchewan 5

Introduction 7

The state of the Government's finances 8

Key indicators of the state of a government's finances 10

Sustainability 11

Flexibility 14

Vulnerability 18

Summary Financial Plan 20

Appendix 1 – Questions and answers 22

Appendix 2 – More detailed financial information 36

This page left blank intentionally.

Executive summary

In this report, we measure the financial condition of the Government by using indicators from a research report commissioned by The Canadian Institute of Chartered Accountants. First, we measure whether the Government is living within its means. Second, we measure the Government's flexibility to meet rising commitments by increasing its revenues or increasing its net debt. Third, we measure the extent to which the Government relies on money from the Federal Government to pay for existing provincial programs.

We conclude that the Government's financial condition significantly improved in 2005. The provincial economy grew by 9.9% and the Government reduced its net debt by $0.8 billion from $9.3 billion to $8.5 billion. Also, the Government spent $844 million less than its total revenue.

Despite the considerable improvement in the state of the Government's finances in 2005, the Government's finances remain vulnerable to the risks of low commodity prices, adverse weather, and high interest rates.

In 2005, much of the improvement in the Government's financial condition was one-time equalization revenue from the Federal Government that cannot be expected to continue in future years. The 2005-06 Budget estimates equalization revenue at $82 million, a decrease of $500 million from 2005. In addition, non-renewable resource revenue for 2005 was at an all time high due to high prices of oil, potash, and natural gas.

Also, the net debt of $8.5 billion is still large for a population of one million people. Accordingly, the Government needs to continue to manage carefully the risks to its future revenues and expenses.

This page left blank intentionally.

Glossary

Annual surplus or deficit – is the difference between revenues and expenses in one year. This measure shows the extent to which revenues raised in the year were sufficient or insufficient to meet expenses in that year.

Accumulated deficit – is the sum of all annual deficits and surpluses. This deficit is equal to the total liabilities less the total assets.

Financial assets – are cash and other assets convertible to cash and not intended for consumption in the normal course of operations, but which could provide resources to pay liabilities or finance future operations. Examples include claims on outside organizations, investments in marketable securities, and inventories for resale.

General Revenue Fund – is a special purpose fund that the Government uses to pay for most of the programs it provides. The financial statements of the General Revenue Fund reflect only part of the Government's activities. The Government sets out a financial plan for the Fund in its annual budget. Transfers to and from other organizations that the Government controls impact the financial results of the General Revenue Fund.

Government business enterprises – are self-sufficient Crown corporations that have the financial and operating authority to sell goods and services to individuals and non-governmental organizations as their principal activity. Examples include SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority. Their financial results are included in Schedule 3 to the summary financial statements.

Government service organizations – are organizations controlled by the Government, and that are not government business enterprises. Schedule 16 to the summary financial statements provides a listing of government service organizations.

Gross domestic product (GDP) – is a measure of the value of the goods and services produced in a jurisdiction in one year.

Interest bite – measures interest costs as a percentage of revenue and is an indicator of the state of governments' finances. The indicator shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

Liabilities – are amounts owed. Liabilities include bonds and debentures, pension obligations, and a variety of other payables and claims.

Net debt – is the total liabilities less the total financial assets. If the total financial assets exceed the total liabilities, there are net assets.

Non-financial assets – are tangible capital assets, inventories for consumption, and prepaid expenses.

Own source revenue – is the revenue raised by a provincial government from sources within the province and, thus, excludes revenue transferred to a provincial government from the Federal Government.

Summary financial statements – is a report of the financial results of all organizations that the Government uses to provide goods and services to the public. The summary financial statements combine the financial activity of all government organizations including departments, Crown corporations, agencies, boards, and commissions, etc.

Tangible capital assets – include land, buildings, equipment, and other infrastructure such as roads and dams. These assets are a key component in the delivery of government programs and provide on-going value to the public. Tangible capital assets have a useful life of greater than one year.

Key financial and economic indicators for Saskatchewan

(derived from the Government's summary financial statements)

(in millions of dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Annual Surplus (Deficit)	(752)	(1,676)	(900)	(281)	141	563	545	326	69	406	461	(483)	(654)	(100)	844
Net Debt	7,896	9,571	10,476	10,758	10,627	10,056	9,511	9,185	9,108	8,702	8,248	8,735	9,305	9,318	8,487
Gross Domestic Product (GDP)	21,505	21,837	21,215	22,904	24,716	26,791	29,238	29,377	29,550	30,929	33,765	33,222	34,498	36,821	40,462

(in percentages)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net Debt as a % of GDP	37	44	49	47	43	38	33	31	31	28	24	26	27	25	21
Interest Costs as a % of Revenue	20	21	24	23	22	20	20	19	18	14	13	13	12	12	10
Annual percentage increase in Net Book Value of Tangible Capital Assets	N/A	N/A	N/A	N/A	N/A	N/A	1.0	0.8	2.6	1.6	1.2	2.8	2.2	2.0	2.4
Own Source Revenue as a % of GDP	17	17	18	18	19	20	18	19	18	18	18	16	18	17	18
Federal Government Transfers as a % of Own Source Revenue	43	46	37	37	33	19	16	12	21	27	17	28	23	20	28

Notes
1. The Government's summary financial statements cover the fiscal year ending March 31.
2. As GDP statistics are not available for a fiscal year, we use GDP statistics for a calendar year in our analysis. For example, the GDP statistic in the 2005 column is for the year ended December 31, 2004. The GDP statistics are not adjusted for inflation and were published by the Saskatchewan Bureau of Statistics.
3. This year, we used the term Net Debt instead of Accumulated Deficit. See question 1 on page 22 for further information.
4. N/A data is not available.

This page left blank intentionally.

Introduction

A sound understanding of the Government's finances is an important ingredient to an informed debate about issues faced by the Government. Those issues pertain to the affordability of programs and services; the best sources of revenue; and the maintenance of Saskatchewan's infrastructure including its buildings, roads, and dams.

This report sets out some financial and economic information to help Saskatchewan people understand the state of the Government's finances. The information is derived from the Government's statistical reports and from its summary financial statements contained in Volume 1 of the Public Accounts.[1] The information in this report is not adjusted for inflation.

We focus on the status of several financial and economic indicators for the years 1991 to 2005. The Government has prepared summary financial statements since 1992. Appendix 1 provides further financial information and analyses in the form of questions and answers. This information is included to assist legislators, government officials, and the public to understand the state of the Government's finances.

Interprovincial comparisons

We include several graphs that will assist readers to compare the state of Saskatchewan's finances to those of other provinces. The most recent year for which complete information is available for all provinces is the year ended March 31, 2004. This information is one year older than the information used in the rest of this report. Saskatchewan completes its Public Accounts earlier than most other provinces.

Readers of these graphs should be aware that provincial governments are organized differently and that this can result in differences in how sectors of government are reported in their financial information. For example, some provincial governments include the results of health regions in their summary financial statements, while others do not. Also, the characteristics of provincial economies differ. For example, some

[1] This information is available on the Internet at http://www.gov.sk.ca/finance/paccts/default.htm (July 2005).

provincial governments obtain significant revenues from non-renewable resources such as oil and gas, while others do not.

These graphs use Gross Domestic Product (GDP) statistics for the year ended December 31, 2003, prepared by Statistics Canada.[2] We also used financial information from the audited summary financial statements prepared for each province for the year ended March 31, 2004.

The state of the Government's finances

The state of the Government's finances significantly improved in 2005.

In 2005, the Government spent $844 million less than its total revenue. Also, the size of the provincial economy grew by 9.9% in 2005. As a result, the net debt as a percentage of GDP decreased from 25% to 21%.

In addition, in 2005, the Government's own source revenue as a percentage of GDP increased from 17% to 18%. Also, the interest bite[3] of the Government's revenue decreased from 12% to 10% of revenue. In 2005, the Government reduced its net debt by $0.8 billion from $9.3 billion to $8.5 billion. This reduction should reduce the Government's interest costs in future years. In addition, the Government's financial condition continues to compare favourably with most other provinces.

The most significant reason for the improvement in the Government's financial condition was the increase in transfers from the Federal Government. In 2005, Federal Government transfer revenue was $705 million higher than 2004. This increased the Federal Government transfer revenue as a percentage of own source revenue from 20% to 28%. Included in the Federal Government transfer revenue is $582 million in transfers for equalization. Equalization revenue increased by $541 million from the $41 million revenue of 2004. Much of this increase is one-time revenue that cannot be expected to continue in future years. The 2005-06 Budget estimates equalization at $82 million compared to $582 million of revenue in 2005.

---

[2] This information is available on the Internet at: http://www.statcan.ca/english/Pgdb/econ15.htm (July 2005).
[3] Interest bite is an indicator of the state of government's finances. The indicator measures interest costs as a percentage of revenue and shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

In addition, revenue from non-renewable resources such as oil, potash, and natural gas is at an all time high of $1.5 billion. The prices of these products are set by worldwide markets over which the Government has no control.

Despite the considerable improvement in the state of the Government's finances in 2005, the Government needs to continue to manage carefully the risks to its future revenues and expenses. Although the Government has reduced its risk of higher interest rates through debt repayment in 2005, the net debt of $8.5 billion is still large for a population of one million people. The state of the Government's finances remains vulnerable to the risks of low commodity prices, adverse weather, and high interest rates.

One of the risks to manage is the impact of drought on the Government's expenses. During periods of drought, the Government spends more money on income support programs for farmers and on fire-suppression programs. For example, farmers and the governments of Saskatchewan and Canada share the cost of the crop insurance program. Crop insurance protects participating farmers against crop losses incurred through adverse weather. The Government does not limit its exposure to large crop insurance payouts to farmers. As a result, adverse weather conditions can significantly affect the Government's annual financial results.

Because of adverse weather, crop insurance payouts were high from 2002 to 2005. In 2002, crop insurance payouts were $331 million. In 2003, crop insurance payouts reached $1.1 billion and in 2004 and 2005, they were $328 million and $392 million respectively. These payouts are substantially higher than in 2001 and 2000 when they were $133 million and $95 million respectively.

Because the Government shares the cost of crop insurance with farmers and the Federal Government, the cost to the Government for crop insurance was about $143 million in 2005, $157 million in 2004, $488 million in 2003 and $214 million in 2002. For 2001 and 2000, the cost to the Government, for both years combined, was about $15 million.

Another matter that needs to be considered is the impact of changing demographics to the provincial tax base. In Saskatchewan, demographics

are changing due to an aging population, the depopulation of rural Saskatchewan, increasing retirements, and a growing aboriginal population.

During the year, we tried to assess the impact of these changing demographics on the provincial tax base. However, we found insufficient information to make an assessment. For example, the information published on tax revenues is short term, usually no more than four years into the future. We encourage the Government to provide information to inform legislators and the public of the impact of changing demographics on the provincial tax base.

Key indicators of the state of a government's finances

There are several financial and economic indicators that can help people to assess the state of a government's finances. The 1997 Research Report entitled *Indicators of Government Financial Condition*, commissioned by The Canadian Institute of Chartered Accountants (CICA), further describes these indicators:

- The ability of a government to meet its existing program commitments and creditor requirements without increasing its net debt– **sustainability**.

- The degree to which a government can increase financial resources to respond to rising commitments either by expanding its revenues or by increasing its net debt– **flexibility**.

- The degree to which a government becomes dependent upon, and thus, vulnerable to sources of funding outside of its control or influence – **vulnerability**.

We discuss these indicators in the Saskatchewan context. Each indicator can and should be analyzed in detail, combined with other information, and monitored over time. The Government should include such an analysis in its performance reports. Performance reports show planned and actual results. Publishing performance reports would also provide the Government with the opportunity to set out its thinking on the underlying issues, its key results, and its plans for the future.

Several other provincial audit offices and some provincial governments use similar indicators to report on the state of government finances in their jurisdictions. In addition, The CICA used similar indicators to measure the state of the Federal Government's finances.

Sustainability

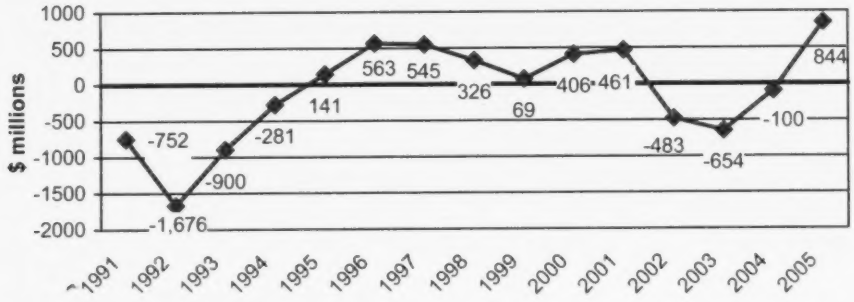
A government's annual surplus or deficit, its net debt, and a province's gross domestic product (GDP) are important indicators of the state of a government's finances. Each of these indicators provides useful insight into the **sustainability** of a government's revenue-raising and spending practices.

The annual surplus or deficit shows the extent to which a government spends less or more than it raises in revenue in one fiscal year. In simple terms, it shows whether a government is living within its means.

Graph 1 shows the Government lived beyond its means from 1991 to 1994. During this four-year period, the Government spent $3.6 billion more than the revenue it raised. For the next seven years from 1995 to 2001, the Government lived within its means. During this seven-year period, the Government spent $2.5 billion less than the revenue it raised. The $2.5 billion includes about $0.9 billion in revenue from the sale of investments such as the Government's shares in Cameco. This trend reversed beginning in 2002 and for the three-year period ended in 2004, the Government again lived beyond its means. In this three-year period, the Government spent $1.2 billion more than the revenue it raised. In 2005, the Government's revenue exceeded its expenses by $0.8 billion. This was the largest annual surplus since the Government has prepared summary financial statements.

Graph 1

The Government's Annual Surplus or Deficit



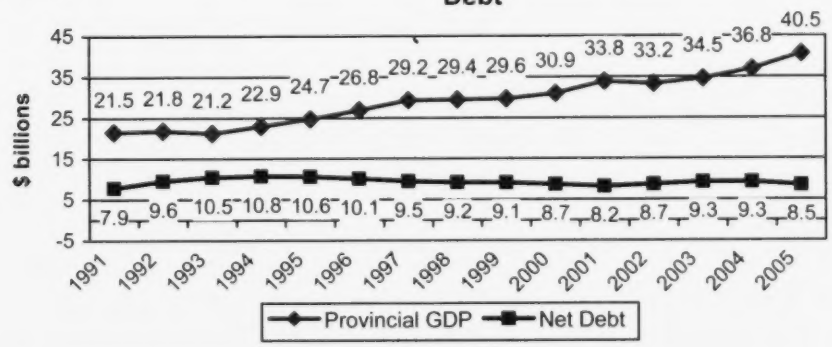
The Government's net debt is the amount that current and past generations of Saskatchewan citizens leave to future generations of citizens to pay or finance. At March 31, 2005, the net debt was $8.5 billion (see Graph 2).

The Province's GDP is a measure of the total value of all the goods and services produced in Saskatchewan in one year. The GDP indicates the size of the provincial economy. The Government must manage its revenue-raising and spending practices in the context of the economy of Saskatchewan.

Since 1991, the GDP of Saskatchewan has increased by 88% (unadjusted for inflation). During the same period, the consumer price index increased by 37%. In 2005, the GDP of Saskatchewan was $40.5 billion (see Graph 2).

Graph 2

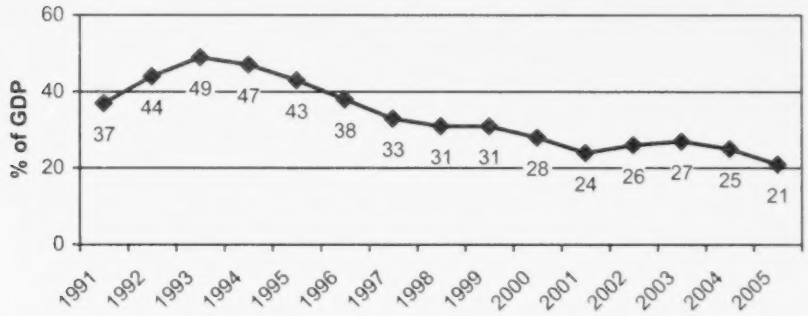
The Province's GDP and the Government's Net Debt



The financial demands placed on the economy by the Government's spending and revenue-raising practices can be assessed for sustainability by comparing the Government's net debt as a percentage of the

Province's GDP (see Graph 3). This graph provides a measure of how much debt the Government can afford to carry. The thinking behind this measure is that the larger the GDP, the more debt the Government can afford to carry.

Graph 3 **The Government's Net Debt as a % of GDP**



This graph shows that from 1991 to 1993 the trend in the Government's spending and revenue-raising practices was not sustainable. If that upward trend had continued, the Saskatchewan economy would not have been able to meet the financing needs of a growing net debt.

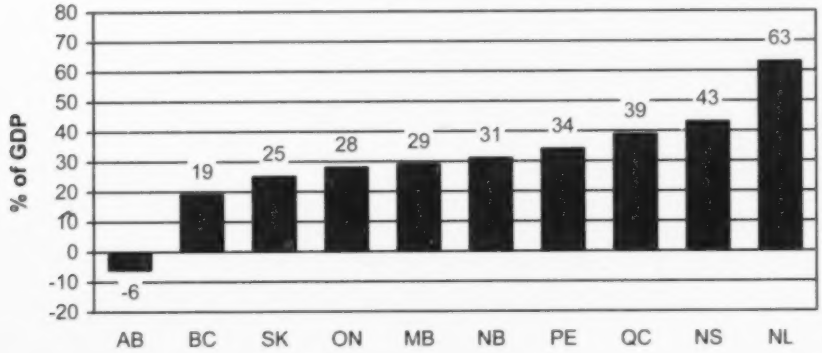
After 1993, the net debt as a percentage of GDP decreased substantially. This decrease is the result of a growing provincial economy and the Government spending less than its revenues. This downward trend means the economy can better sustain the demands placed on it by the Government and has improved the Government's credit rating. The Government has more sources for borrowing and pays lower interest costs. In addition, the Government relies less on equalization payments.

In 2005, the net debt as a percentage of GDP has decreased to 21%. This is a substantial improvement over 2004 and is the best result in the fifteen-year period covered by this report. The improving trend provides benefits such as more flexibility in revenue-raising and spending decisions, and lower interest costs.

In Graph 4, we compare net debt as a percentage of each province's GDP as at March 31. 2004. This graph shows that Saskatchewan's net debt as a percentage of Saskatchewan's gross domestic product is the third lowest in Canada. At March 31, 2003, Saskatchewan was the fourth lowest. This means that the Saskatchewan economy is better able to

sustain the demands placed on it by the Government than the economies in most other provinces.

Graph 4 Interprovincial Comparison of Net Debt as a % of GDP as at March 31, 2004



Flexibility

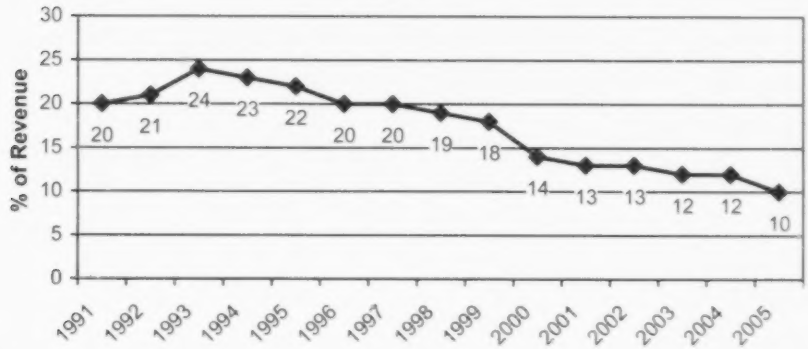
A government's interest costs, tangible capital assets, and own source revenues are also important indicators of the state of its finances. Together with a government's net debt and a province's GDP, these indicators provide insight into a government's **flexibility** in responding to rising commitments. For example, when a government has a large net debt and high interest costs, it has fewer resources to allocate to programs and services.

The Government incurs interest costs on its debt of bonds and debentures and its unfunded pension liabilities. At March 31, 2005, the Government's debt of bonds and debentures was $8.1 billion and its unfunded pension liabilities were $4.2 billion. The money to pay interest costs is raised by levying taxes or by charging directly for services. In 2005, the Government's interest costs were $0.9 billion. To put that $0.9 billion in perspective, in the same year, the Government spent $1.2 billion on education and $2.9 billion on health.

The amount of interest costs as a percentage of total revenue, sometimes called the "interest bite," is an important indicator of the state of a government's finances. This indicator shows the extent to which a government must use revenue to pay for interest costs rather than to pay for services.

Graph 5 shows how much of every dollar of the Government's revenue was needed to pay for interest costs. In 1993, twenty-four cents of every dollar went to pay for interest costs. Since 1993, the amount of revenue the Government needed to pay for interest costs has declined. In 2005, ten cents of every dollar of the Government's revenue went to pay for interest costs.

Graph 5 **The Government's Interest Costs as a % of Revenue**

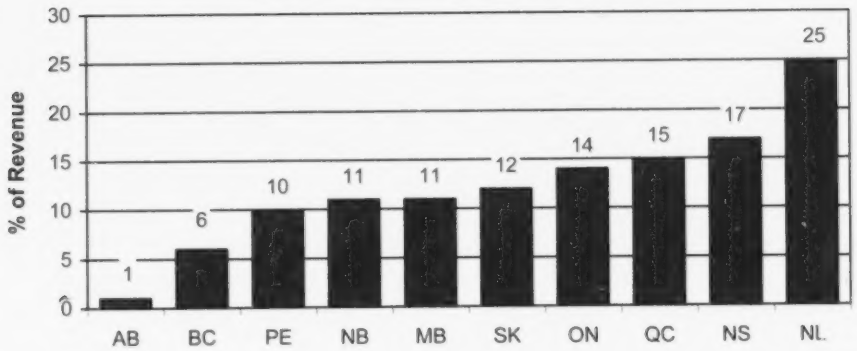


Because of the reduction in the interest bite, the Government can now use more of its revenues to pay for programs and services, and use less of its revenues to pay for the interest costs of debt.

Interest costs peaked in 1995 at $1.3 billion. In 2005, interest costs were $0.4 billion less than in 1995. The reduction in the interest bite is the result of a combination of increased revenue, lower interest rates, and debt reduction. Although the Government's interest costs have been declining, these costs remain significant.

In Graph 6, we compare government interest costs as a percentage of government revenue. This graph shows that Saskatchewan's interest costs, as a percentage of revenue, are sixth highest of the ten provinces at March 31, 2004. Saskatchewan was fifth highest at March 31, 2003.

Graph 6 **Interprovincial Comparison of Interest Costs as a % of Revenue as at March 31, 2004**



Graph 7 shows the annual percentage change in the net book value of the Government's tangible capital assets. Governments invest billions of dollars in tangible capital assets such as buildings, equipment, roads, and dams. These assets are essential for the economy and for delivering government services. They are recorded at cost and their value is reduced by amortization. At March 31, 2005, the net book value of the Government's tangible capital assets was $3.9 billion (historical cost of $7.4 billion less accumulated amortization of $3.5 billion).

The annual percentage change in the net book value of tangible capital assets is an important indicator because it measures the extent to which a government is maintaining or failing to maintain the tangible capital assets needed to deliver its services. For example, continual decreases in the net book value of tangible capital assets may indicate that a government is not maintaining or enhancing its tangible capital asset base. This can adversely affect service delivery and lead to increased financial burdens on future taxpayers.

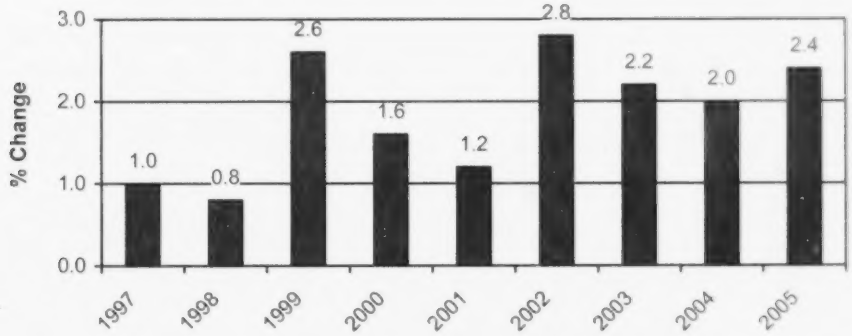
In addition, the costs of restoring the tangible capital asset base could impair a government's ability to pay for other government services. Although, a failure to maintain essential tangible capital assets can improve a government's financial results in the short term, such deferral of capital spending may lead to higher costs and poorer financial results in future periods.

Graph 7 shows that for the last nine years the Government has increased the net book value of its tangible capital assets. Since March 31, 1996, the net book value of the Government's tangible capital assets has

increased by 18%. We have not provided an inter-provincial comparison for this indicator as complete information on tangible capital assets is not available for all provinces.

Graph 7

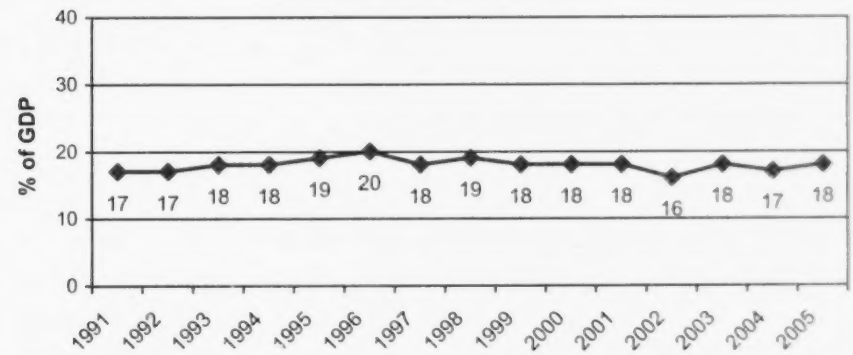
Annual % Increase in Net Book Value of Tangible Capital Assets from 1997 to 2005



Another important indicator of the state of a government's finances is shown by comparing the change in a government's own source revenue to the size of the economy (see Graph 8). This indicator shows the extent of the Government's revenue demands on the Saskatchewan economy. The Saskatchewan Government raises revenue from two general sources. The first revenue source is from within the Province. This source is called "own source revenue." Examples of own source revenue include tax revenue, and oil and gas revenues. The second source of revenue is transfers from the Federal Government. Examples of transfers from the Federal Government are equalization transfers, and Canada Health and Canada Social transfers.

Graph 8

The Government's Own Source Revenue as a % of GDP

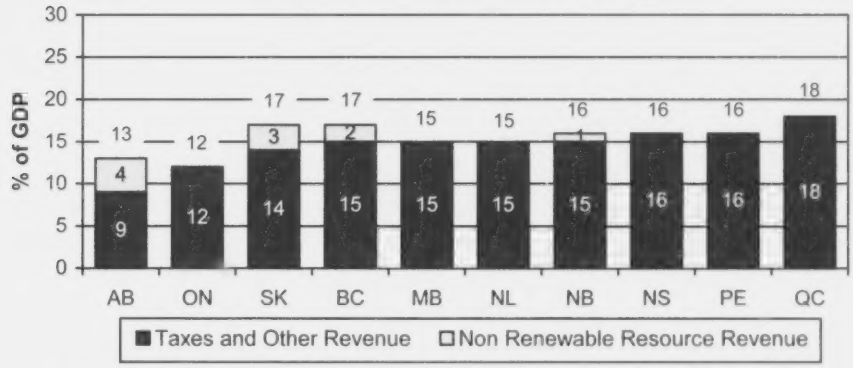


Since 1991, the revenue raised by the Government, as a percentage of GDP from sources within the Province, has remained fairly constant.

In Graph 9, we compare provincial governments' own source revenues as a percentage of GDP as at March 31, 2004. This shows the extent of the governments' revenue demands on their economies.

This graph shows that Saskatchewan's own source revenue from taxes and other revenue are third lowest of the ten provinces. At March 31, 2003, Saskatchewan was also third lowest of the ten provinces. In addition, the graph shows that Saskatchewan has higher revenue from non-renewable resources than most other provinces as a percentage of GDP.

Graph 9 **Interprovincial Comparison of Own Source Revenue as a % of GDP as at March 31, 2004**



Vulnerability

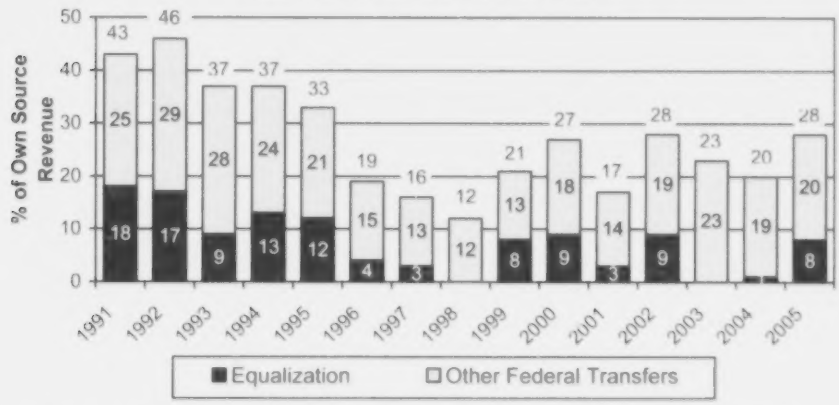
The extent to which a government raises its own revenue from within the province (own source revenue) as compared to the extent to which it receives revenue transfers from the Federal Government provides another important indicator of the state of a government's finances. This indicator provides a valuable insight into a government's **vulnerability** to sources of revenue outside of its control. In simple terms, this indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

A significant portion of the Government's revenue consists of transfers from the Federal Government. These revenue transfers are intended to help pay for the costs of such services as health, education, and agriculture. In addition, the Government receives equalization transfers from the Federal Government.

The Federal Government calculates the amount of equalization transfers by comparing the ability of a province to raise revenues with rules set by the Federal Government. As a result, the performance of other provincial economies significantly affects the annual amount of equalization transfer due to Saskatchewan.

Since 1991, revenue transfers from the Federal Government have decreased as a percentage of the revenues raised directly by the Saskatchewan Government from sources within the Province (see Graph 10). Graph 10 also shows the fluctuation in equalization and other transfers from the Federal Government. Other transfers include Canada Health transfers, Canada Social transfers, and transfers for education and agriculture.

Graph 10 Federal Government Transfers as a % of Saskatchewan Government Own Source Revenue



From 1991 to 2004, revenue transfers from the Federal Government decreased from $1.6 billion to $1.3 billion before rising again to $2.0 billion in 2005. In 2005, the increase is mainly due to a $0.5 billion increase in equalization revenue, most of which is one-time revenue. The 2005-06 Budget estimates equalization at $82 million compared to the $582 million revenue in 2005.

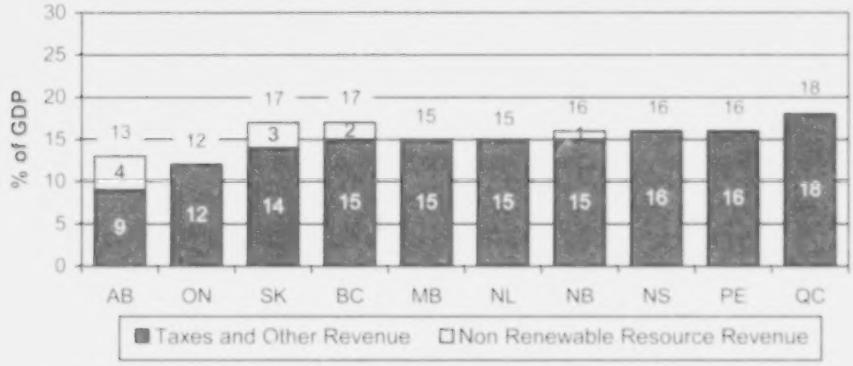
From 1991 to 2005, revenue raised directly by the Government from sources within Saskatchewan has increased significantly. For example, since 1991:

- Taxation revenue increased from $2.0 billion to $3.6 billion in 2005. Over the period, tax revenue increased by 81% while GDP increased by 88%.

In Graph 9, we compare provincial governments' own source revenues as a percentage of GDP as at March 31, 2004. This shows the extent of the governments' revenue demands on their economies.

This graph shows that Saskatchewan's own source revenue from taxes and other revenue are third lowest of the ten provinces. At March 31, 2003, Saskatchewan was also third lowest of the ten provinces. In addition, the graph shows that Saskatchewan has higher revenue from non-renewable resources than most other provinces as a percentage of GDP.

Graph 9 **Interprovincial Comparison of Own Source Revenue as a % of GDP as at March 31, 2004**



Vulnerability

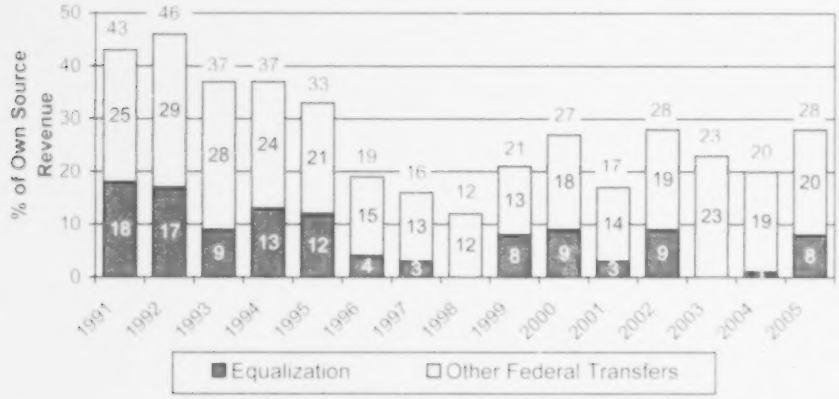
The extent to which a government raises its own revenue from within the province (own source revenue) as compared to the extent to which it receives revenue transfers from the Federal Government provides another important indicator of the state of a government's finances. This indicator provides a valuable insight into a government's **vulnerability** to sources of revenue outside of its control. In simple terms, this indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

A significant portion of the Government's revenue consists of transfers from the Federal Government. These revenue transfers are intended to help pay for the costs of such services as health, education, and agriculture. In addition, the Government receives equalization transfers from the Federal Government.

The Federal Government calculates the amount of equalization transfers by comparing the ability of a province to raise revenues with rules set by the Federal Government. As a result, the performance of other provincial economies significantly affects the annual amount of equalization transfer due to Saskatchewan.

Since 1991, revenue transfers from the Federal Government have decreased as a percentage of the revenues raised directly by the Saskatchewan Government from sources within the Province (see Graph 10). Graph 10 also shows the fluctuation in equalization and other transfers from the Federal Government. Other transfers include Canada Health transfers, Canada Social transfers, and transfers for education and agriculture.

Graph 10 Federal Government Transfers as a % of Saskatchewan Government Own Source Revenue



From 1991 to 2004, revenue transfers from the Federal Government decreased from $1.6 billion to $1.3 billion before rising again to $2.0 billion in 2005. In 2005, the increase is mainly due to a $0.5 billion increase in equalization revenue, most of which is one-time revenue. The 2005-06 Budget estimates equalization at $82 million compared to the $582 million revenue in 2005.

From 1991 to 2005, revenue raised directly by the Government from sources within Saskatchewan has increased significantly. For example, since 1991:

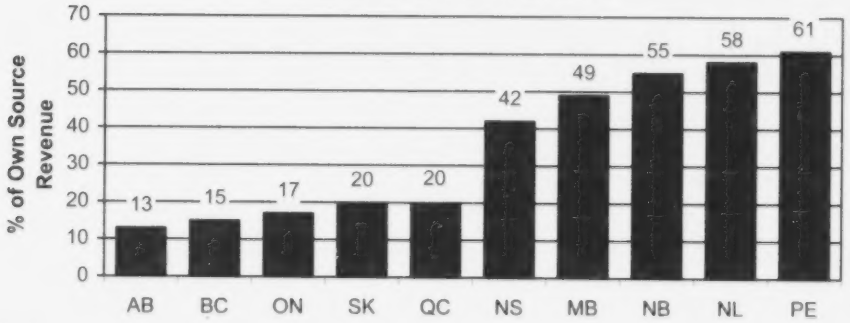
- Taxation revenue increased from $2.0 billion to $3.6 billion in 2005. Over the period, tax revenue increased by 81% while GDP increased by 88%.

- Non-renewable resources revenue increased from $0.4 billion to $1.5 billion in 2005.

Since 1991, Federal Government transfers as a percentage of the Saskatchewan Government's own source revenue have declined from 43% to 28%. During this period, the Government became less dependent on, and less vulnerable to, sources of revenue outside its control. Appendix 2 sets out more detailed information on trends in the Government's revenue and expenses.

In Graph 11, we compare Federal Transfers as a percentage of own source revenue at March 31, 2004. This graph shows that Saskatchewan's revenue transfers from the Federal Government as a percentage of own source revenue is tied with Quebec at fourth lowest of the ten provinces. At March 31, 2003, Saskatchewan was fifth lowest of the ten provinces.

Graph 11 **Interprovincial Comparison of Federal Transfers as a % of Own Source Revenue as at March 31, 2004**



Summary Financial Plan

The Government publishes its financial plan for the entire government in the provincial budget.[4] The plan helps legislators, government officials, and the public to understand the impact of the budget on the entire Government's financial position and on the affordability of new and existing programs.

[4] See page 86 of the provincial budget on the Internet at http://www.gov.sk.ca/finance/budget/budget05/budgetsummary.pdf (July 2005).

In the Mid-Year Report[5], the Government reported projected results compared to the financial plan for the entire Government. However, the Government did not report the projected results compared to the financial plan for the entire Government for the first and third quarters. We encourage the Government to publish the actual results and the projected results compared to its financial plan for the entire Government in each quarter. As actual and projected results are published, legislators and the public will be able to assess whether the Government's financial performance is better or worse than what was planned.

[5] See page 20 of The Mid-Year Report on the Internet at http://www.gov.sk.ca/finance/finrep/2004/midyear.pdf (July 2005).

Appendix 1 – Questions and answers

In this appendix, we set out other financial information and analyses in the form of questions and answers. This information is included to assist legislators, government officials, and the public to understand the state of the Government's finances.

1. Why did the format of the Government's summary financial statements change this year?

   The Government adopted new CICA standards of accounting and financial statement presentation. The new standards introduce non-financial assets as a new category of assets. Tangible capital assets, inventories for consumption, and prepaid expenses are recorded as non-financial assets and the cost of the Government's use of these assets during the year is recorded as an expense.

   Prior to the changes, the accumulated deficit for Saskatchewan was substantially the same as net debt. After the changes, the accumulated deficit is now net debt less the new category of non-financial assets. In this report, we continue to focus on net debt.

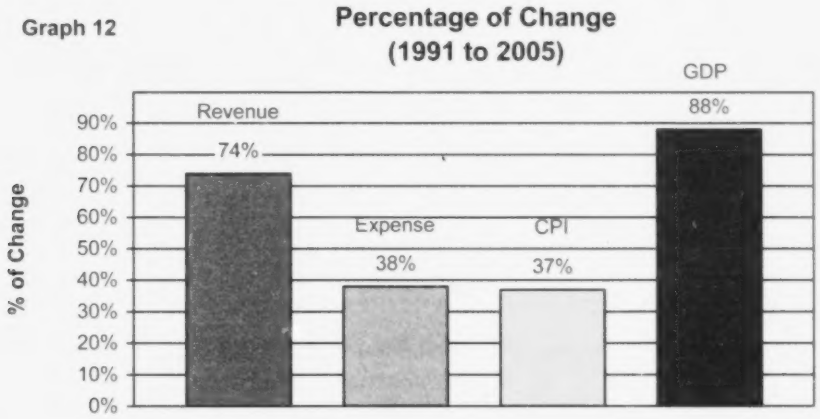
2. Is the Government making the best use of the public's resources?

   This is a very difficult question because the answer involves important policy issues related to the role of government and whether individual services are worthwhile. Such issues are best debated among legislators and the public.

3. Is the Government's revenue raising and spending increasing at a rate less than or greater than inflation?

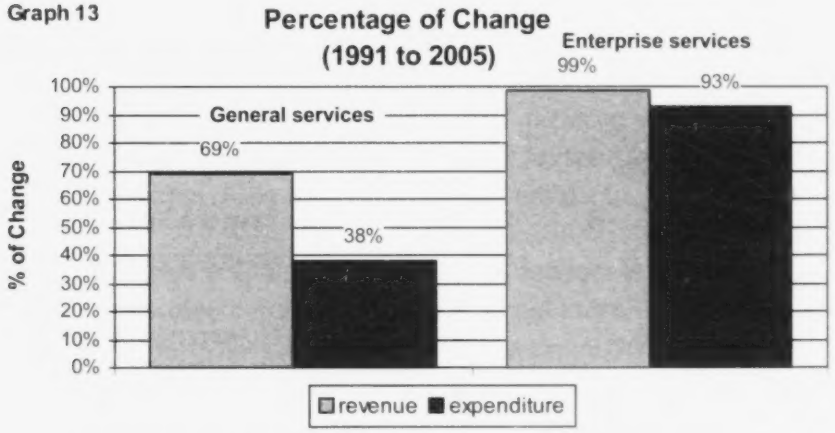
   The following graph compares the percentage changes in revenues and in expenses to the change in Saskatchewan's consumer price index (CPI) and its gross domestic product (GDP). The revenues, expenses, and GDP statistics are not adjusted for inflation.

Graph 12



4. Is the Government carrying out more of its activity through its Government business enterprises[6]?

Graph 13



As shown in Graph 13, from 1991 to 2005, general service revenues increased 69% and general service expenses increased 38%. General service revenues do not include revenues and expenses of government business enterprises. In the same period, government business enterprise revenues increased 99% and their expenses increased 93%. These amounts are not adjusted for inflation.

Appendix 2 sets out more detailed information on trends in the Government's revenue and expenses.

[6] The Government's business enterprises include Crown corporations such as SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority. They are included in Schedule 3 to the summary financial statements. These enterprises raise revenue through direct charges for goods and services.

5. To what extent has the sale of investments affected the Government's financial results?

   In 1992, the Government recorded a $189 million loss from the sale of shares in Cameco.

   In 1996, the Government recorded a $615 million gain from the sale of shares of Cameco, LCL Cable, and ISM.

   In 1998, the Government recorded a $175 million gain from the sale of shares in Wascana Energy Inc. and the sale of the Bi-Provincial Upgrader.

   In 2000, the Government recorded a $69 million gain from the sale of its interests in Saturn Communications Limited and the Saskfor MacMillan Limited Partnership.

   In 2002, the Government recorded a $112 million gain from the sale of its remaining shares in Cameco.

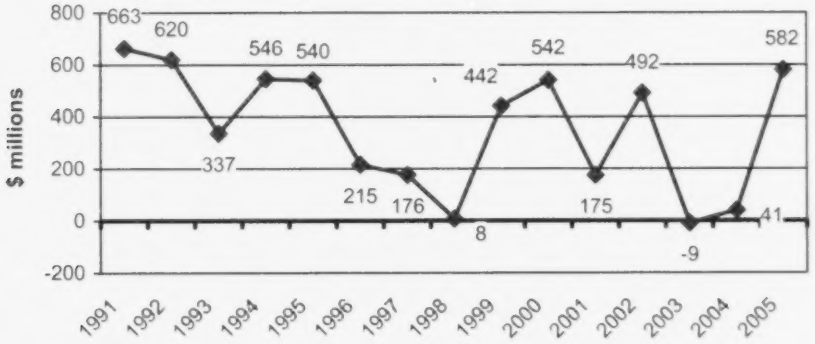
6. How have transfers from the Federal Government for equalization affected the Government's finances?

   The Saskatchewan Government has received transfers for equalization from the Federal Government for many years. The Federal Government calculates the amount of the transfers by comparing the ability of a province to raise revenues with rules set by the Federal Government. As a result, the performance of provincial economies outside Saskatchewan significantly affects the annual amount of equalization transfer due to Saskatchewan.

   The following graph shows the volatility of equalization transfer revenue recorded in the Government's summary financial statements from 1991 to 2005.

Graph 14

Equalization Transfer Revenue from 1991 to 2005



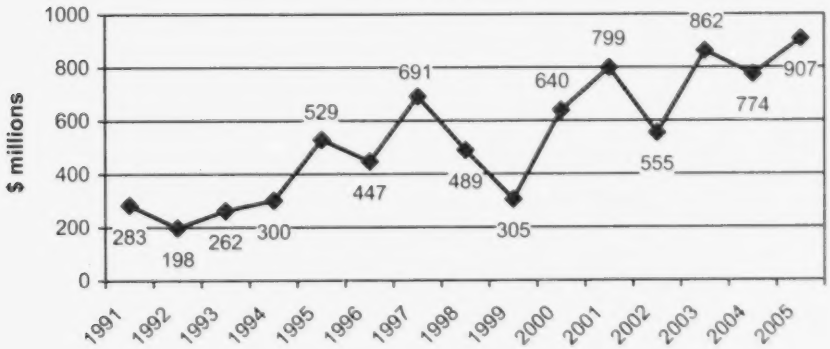
7. What impact have oil revenues had on the Government's revenue?

Oil trades on the world markets and the price fluctuates due to world supply and demand. In recent years, the price of oil has been subject to extreme price swings resulting in similar swings in the Government's oil revenues. Such revenue swings are beyond the control of the Saskatchewan Government.

As shown in Graph 15, the impact of changes in oil and other natural resource royalties are significant to the Government's revenue. However, the Federal Government deducts most oil and other natural resource royalties from amounts due to Saskatchewan for equalization.

Graph 15

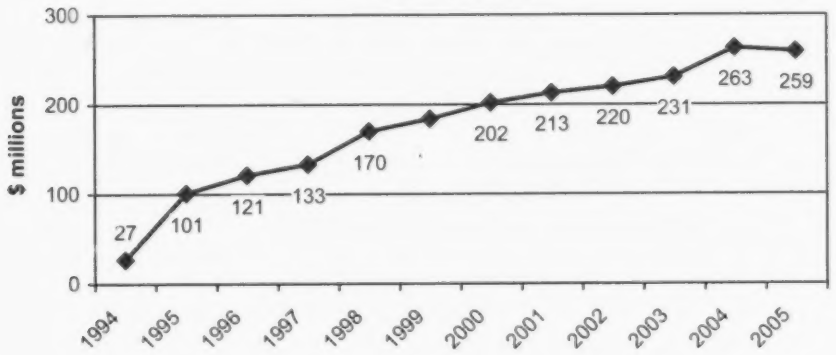
Oil Revenue from 1991 to 2005



8. What impact have gaming operations had on the Government's finances?

The Government has earned net income from gaming since 1994. Net income is the amount of gaming revenues received by the Government after deducting expenses for gaming operations. In 1994, the net income from gaming was $27 million. Since then, net income from gaming has increased significantly as shown in Graph 16.

Graph 16 **Government's share of Net Income from Gaming**



9. Which items significantly affected the summary financial statements results for 2005?

Overall the Government's revenue increased by $1,535 million in 2005 and its expenses increased by $591 million. The annual surplus was $844 million compared to an annual deficit of $100 million in 2004.

Federal Government transfer revenue was $705 million higher than last year. This was mainly due to an increase in equalization revenue of $541 million, most of which is one-time revenue. The 2005-06 Budget estimated equalization revenue at $82 million for 2006.

Non-renewable resources revenue was $333 million higher than last year. This was mainly due to improved revenues from potash

and oil. In 2005, revenue from potash and oil was $305 million and $907 million compared to $120 million and $774 million in 2004.[7]

Taxation revenue was $191 million higher than last year. Sales tax increased by $131 million mainly due to an increase in the provincial sales tax rate from 6% to 7%.

Other own-source revenue was $197 million higher than last year. This included an increase in earnings from equity investments of $88 million. In addition, revenue for the Meadow Lake Pulp Limited Partnership is $88 million higher due to a change in accounting policy.

Income from government business enterprises was $109 million higher than last year. Saskatchewan Auto Fund's net income was $125 million compared to $12 million in 2004.

Agricultural expenses increased by $79 million from last year. This was mainly due to increased expenses of $107 million for the Canadian Agricultural Income Stabilization program.

Economic development expenses were $139 million more than last year. This was mainly due to a change in accounting policy that included the Government's share of expenses for the Meadow Lake Pulp Limited Partnership in economic development expenses in 2005.

Education expenses were $146 million more than last year. This was mainly due to increased expenses for teachers' pensions and increases in operating and capital grants to schools, colleges, and universities.

Finally, health expenses were $199 million more than last year. This was mainly due to increased costs for salaries and benefits, payments to doctors, drugs, and other inflationary increases.

---

[7] See page 81 in Volume 1 of the Public Accounts at http://www.gov.sk.ca/finance/paccts05/Volume1-2004-05.pdf (July 2005).

10. Why do agriculture expenses fluctuate so much?

Agricultural spending fluctuates depending on the state of the agricultural economy. The agricultural economy is dependent on prices for commodities that are traded in world markets and subject to world supply and demand. The agricultural economy is also affected by trading subsidies paid by foreign governments. Further, the state of the agriculture economy is also dependent on the weather.

In addition, large agricultural services are often cost-shared with the Federal Government. The Federal Government or the Saskatchewan Government can administer these cost-share services.[8] The accounting for cost-share services can have a significant impact on the amount recorded as agricultural expenses.

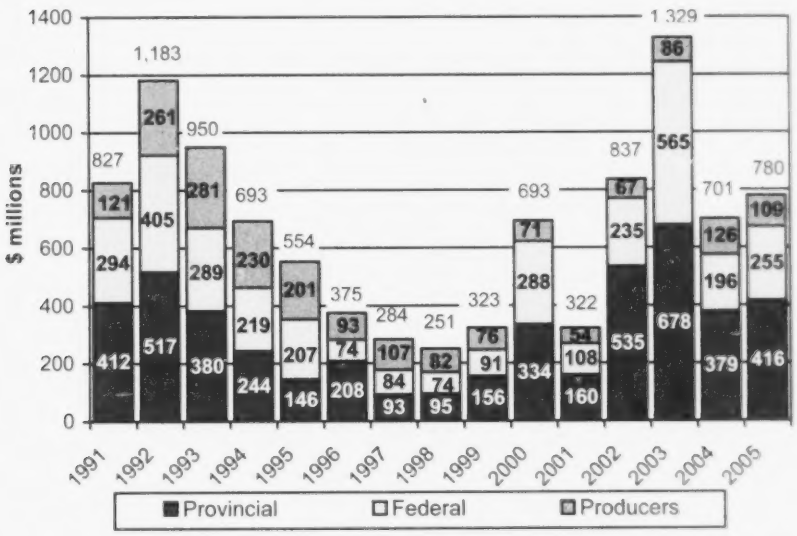
For example, if Saskatchewan administers the service, as is done with crop insurance, the Saskatchewan Government shows the total expenses for the service, even though some of the money to pay for the service came from the Federal Government and farmers. The Saskatchewan Government includes the money from the Federal Government and from farmers as revenue in its financial statements.

If on the other hand, as with the Canadian Agricultural Income Stabilization service, Saskatchewan does not administer the service, but instead pays its share of the cost to the Federal Government (administrator), then the Saskatchewan Government records only its share of the cost of the service as an expense in its financial statements.

The following graph shows the Government's agricultural expenses from 1991 to 2005. Agricultural expenses do not include significant Government support provided to the agriculture sector through tax concessions. For example, in the 2005-06 Budget, the fuel tax exemption for farm activity is estimated to be $112 million.

[8] The Department of Agriculture and Food told us that the decision as to which level of government administers the service is made to keep costs low and considers experience in administering similar services.

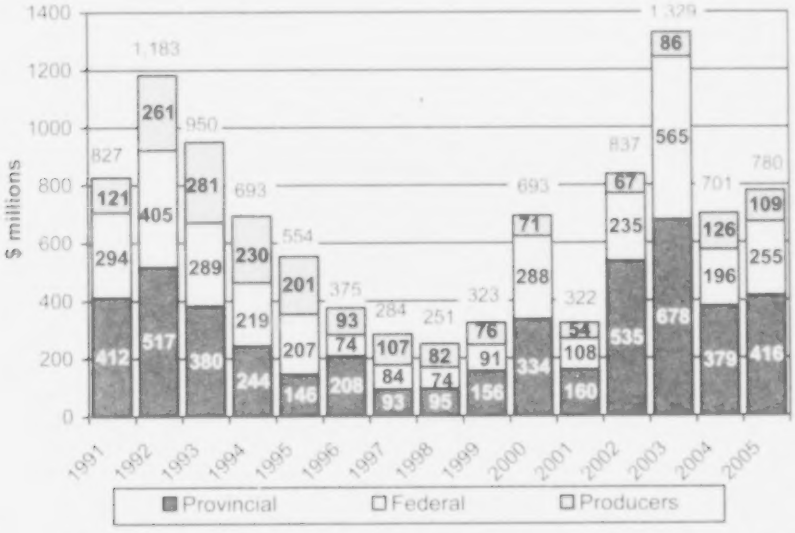
Graph 17 **Financing Sources for Agriculture Expenses**



11. How much are the Government's total liabilities including liabilities of Government business enterprises?

Graph 18 shows the Government's total liabilities including liabilities of Government business enterprises from 1991 to 2005. The graph also shows a breakdown of these liabilities between bonds and debentures, unfunded pension liabilities, and other liabilities. Other liabilities include accounts payable, accrued interest, and unpaid claims for government insurance services. Although the amount of the Government's total liabilities provides important information to understand the Government's financial condition, this report focuses on the Government's net debt which is a better indicator of the Government's financial condition.

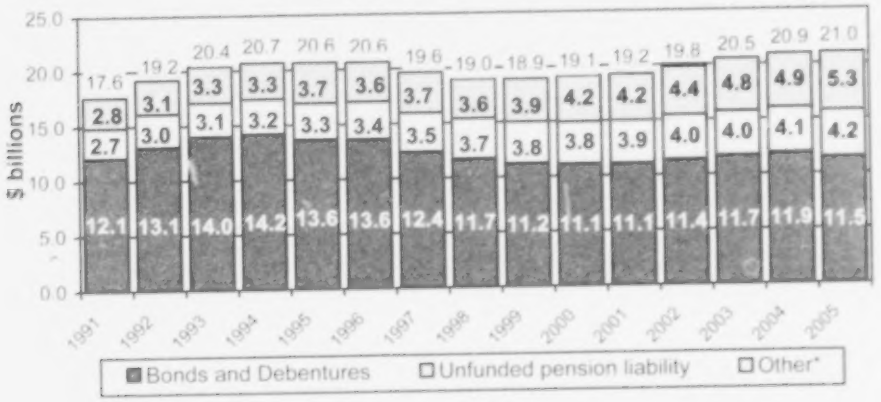
Graph 17 **Financing Sources for Agriculture Expenses**



11. How much are the Government's total liabilities including liabilities of Government business enterprises?

Graph 18 shows the Government's total liabilities including liabilities of Government business enterprises from 1991 to 2005. The graph also shows a breakdown of these liabilities between bonds and debentures, unfunded pension liabilities, and other liabilities. Other liabilities include accounts payable, accrued interest, and unpaid claims for government insurance services. Although the amount of the Government's total liabilities provides important information to understand the Government's financial condition, this report focuses on the Government's net debt which is a better indicator of the Government's financial condition.

Graph 18 **The Government's Liabilities including Liabilities of Government Business Enterprises as at March 31**



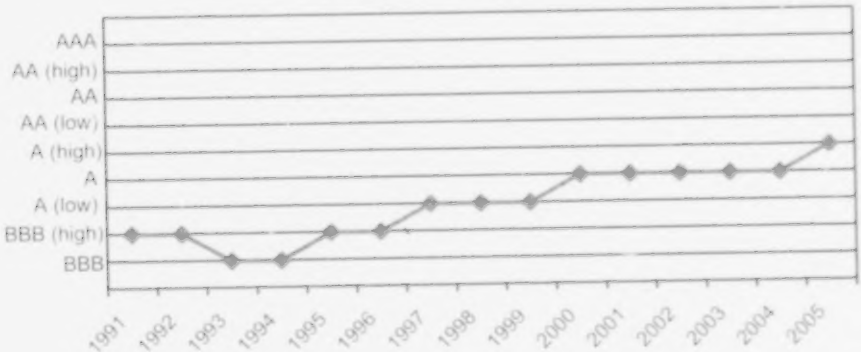
ERRATUM

- Other*
- Unfunded pension liability
- Bonds and debentures

* Excludes amounts owed by the GRF to the Liquor and Gaming Authority since they are not owed to non-government agencies (in millions: 2005 – $44, 2004 – $37, 2003 – $23, 2002 – $32, 2001 - $13, 2000 - $674, 1999 - $364, 1998 - $386, 1997 - $451, 1996 - $197, 1995 - $241, 1994 - $140, 1993 - $116, 1992 - $118, and 1991 - $70).

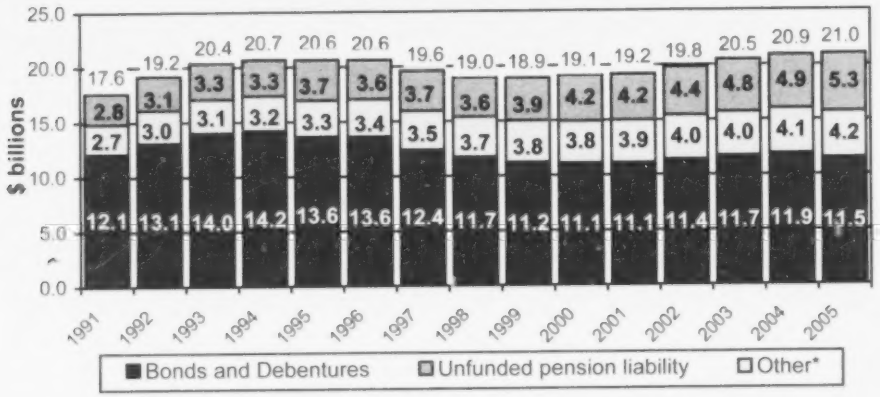
12. How has Saskatchewan's credit rating changed from 1991 to 2005?

Graph 19 **Dominion Bond Rating Service Credit Ratings from 1991 to 2005**



Saskatchewan received a credit rating of BBB from 1993 to 1994 from the Dominion Bond Rating Service. Since that time, Saskatchewan's rating has gradually improved to A high in 2005.

Graph 18 **The Government's Liabilities including Liabilities of Government Business Enterprises as at March 31**



ERRATUM

← Other*

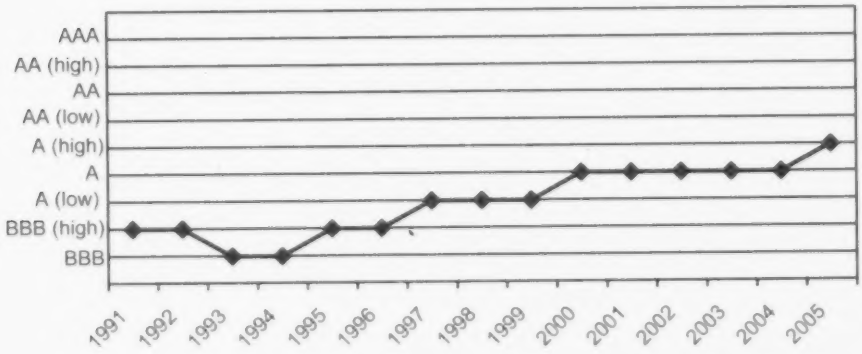
← Unfunded pension liabili

← Bonds and debentures

* Excludes amounts owed by the GRF to the Liquor and Gaming Authority since they are not owed to non-government agencies (in millions: 2005 – $44, 2004 – $37, 2003 – $23, 2002 – $32, 2001 - $13, 2000 - $674, 1999 - $364, 1998 - $386, 1997 - $451, 1996 - $197, 1995 - $241, 1994 - $140, 1993 - $116, 1992 - $118, and 1991 - $70).

12. How has Saskatchewan's credit rating changed from 1991 to 2005?

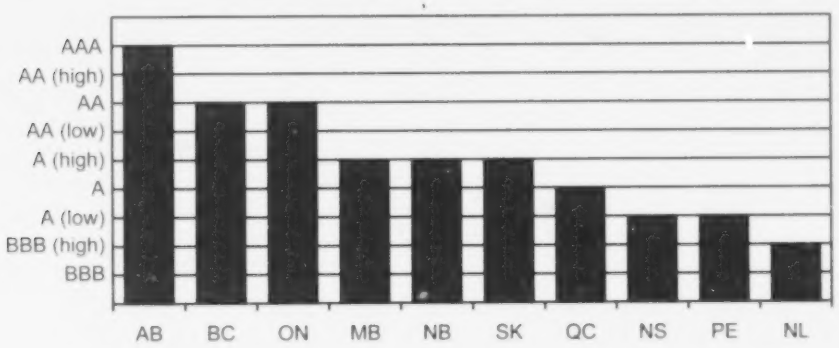
Graph 19 **Dominion Bond Rating Service Credit Ratings from 1991 to 2005**



Saskatchewan received a credit rating of BBB from 1993 to 1994 from the Dominion Bond Rating Service. Since that time, Saskatchewan's rating has gradually improved to A high in 2005.

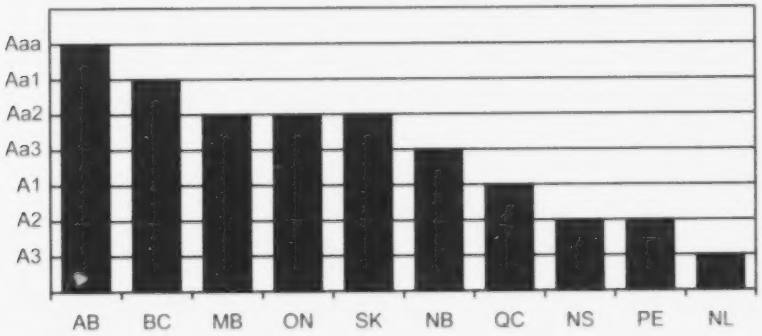
13. How does Saskatchewan's credit rating compare to the credit ratings of the other provinces?

Graph 20 **Dominion Bond Rating Service**
Credit Ratings as at July 12, 2005



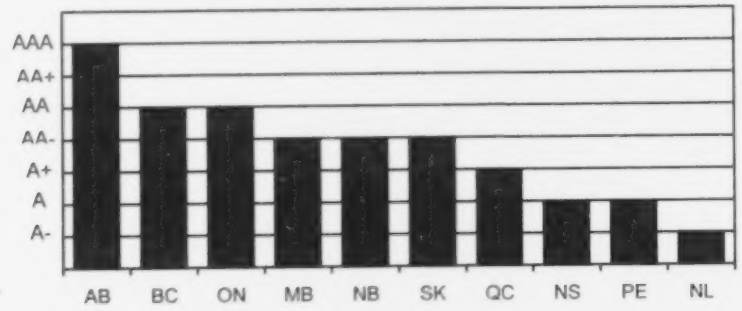
Saskatchewan, Manitoba, and New Brunswick have the fourth highest credit rating of the ten provinces, according to the ratings list of the Dominion Bond Rating Service at July 12, 2005.

Graph 21 **Moody's Investors Service**
Credit Ratings as at July 14, 2005



Saskatchewan, Manitoba, and Ontario have the third highest credit rating of the ten provinces, according to the ratings list of Moody's Investors Service at July 14, 2005.

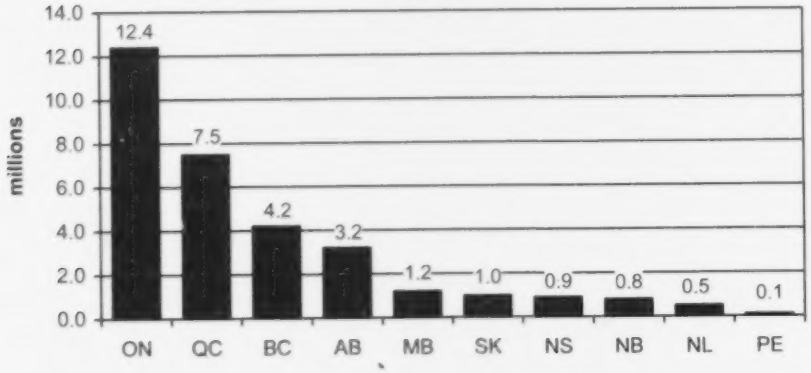
Graph 22 **Standard & Poor's Credit Ratings as at July 5, 2005**



Saskatchewan, Manitoba, and New Brunswick have the fourth highest credit rating of the ten provinces, according to the ratings list of Standard & Poor's Rating Service at July 5, 2005.

14. How does the size of Saskatchewan's population compare with other provinces?

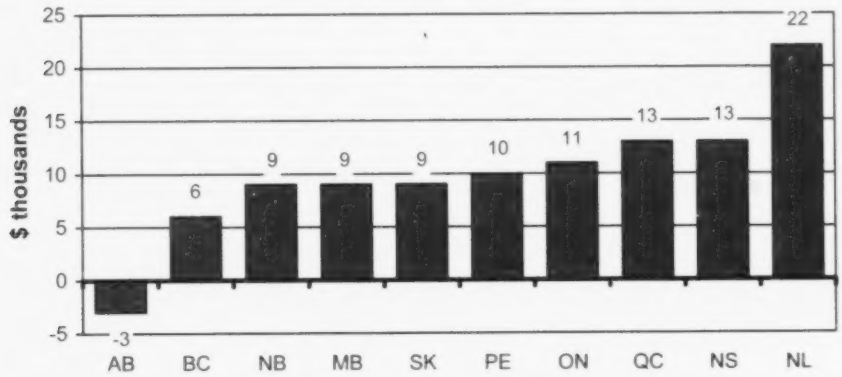
Graph 23 **Interprovincial Comparison of Population as at July 1, 2005**



Graph 23 shows wide range in population sizes between the provinces. Saskatchewan has the sixth largest population of the ten provinces. The information on population is published by Statistics Canada.

15. How does the Government's net debt per capita compare with other provinces?

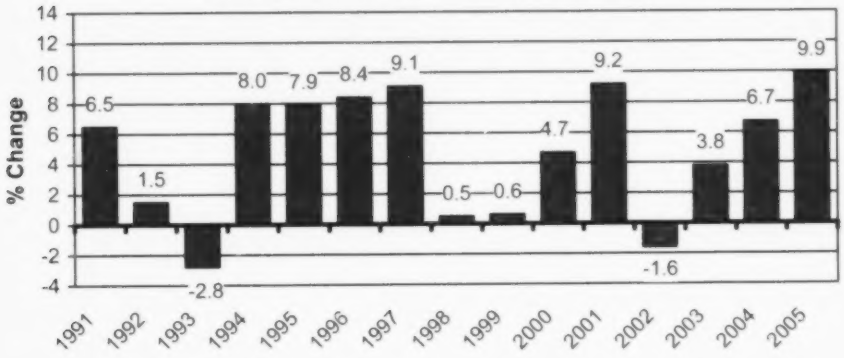
Graph 24 Interprovincial Comparison of Net Debt per Capita



Graph 24 shows that Saskatchewan is tied with New Brunswick and Manitoba for the third lowest net debt per capita of the provinces. The information on population is from Statistics Canada and is at July 1, 2004. The net debt is as at March 31, 2004.

16. What is the annual percentage change in Saskatchewan's GDP from 1991 to 2005?

Graph 25 Annual % Change in the Province's Gross Domestic Product, 1991 to 2005



Graph 25 shows the annual percentage change in the Saskatchewan economy as measured by the change in the GDP (unadjusted for inflation).[9] The graph shows that the

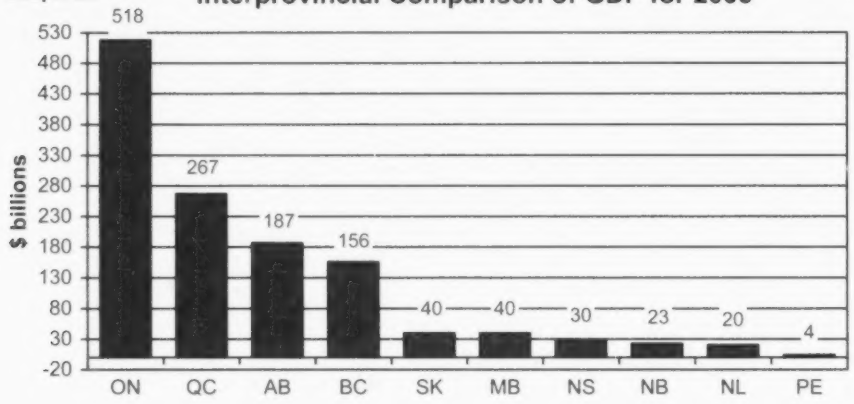
[9] See Note 2 on page 5

Saskatchewan economy is subject to significant fluctuation. The Saskatchewan economy remains vulnerable to low commodity prices, high interest rates, and adverse weather. In 2005, the Saskatchewan GDP increased by almost 10%.

17. How does the size of Saskatchewan's GDP compare with the other provinces?

Graph 26 shows an interprovincial comparison of GDP for the year ended December 31, 2004. The graph shows that Saskatchewan is tied with Manitoba for the fifth largest economy of the provinces.[10]

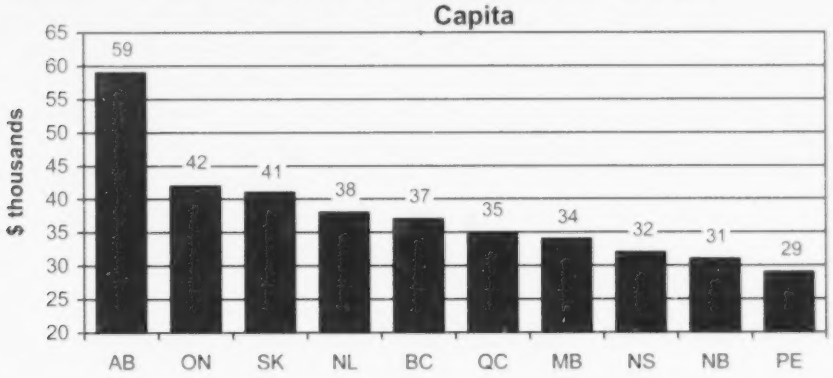
Graph 26 **Interprovincial Comparison of GDP for 2005**



[10] The GDP information is from Statistics Canada and is available on the Internet at http://www.statcan.ca/english/Pgdb/econ15.htm (July 2005).

18. How does Saskatchewan's GDP per capita compare with the other provinces?

Graph 27 **Interprovincial Comparison of GDP per Capita**



Graph 27 shows an interprovincial comparison of GDP per capita for the year ended December 31, 2004. GDP per capita is the provincial GDP divided by the population of the province. Saskatchewan had the third largest GDP per capita of the provinces. The information on GDP and population is from Statistics Canada. The GDP information was for the year ended December 31, 2004 and the population information was as at July 1, 2004.

Appendix 2 – More detailed financial information

(Derived from the Government's summary financial statements)

(in $ millions)

	1991	1992	1993	1994	1995	1996
	(unaudited)					
Revenue						
General Programs						
Taxes	1,988	2,163	2,276	2,536	2,643	2,854
Federal government transfers	1,603	1,706	1,447	1,488	1,512	1,046
Non-renewable resources	423	323	393	453	718	673
Income from government enterprises	362	266	249	310	313	.590
Other	932	952	948	775	899	1,260
Total Revenue	5,308	5,410	5,313	5,562	6,085	6,423
Expense						
General Programs						
Agriculture[1]	827	1,183	950	693	554	375
Community development	143	107	104	145	160	158
Debt charges (interest costs)	1,053	1,147	1,299	1,285	1,338	1,305
Economic development	86	125	81	79	79	148
Education	847	871	883	849	874	828
Environment and natural resources	184	20	87	151	116	192
Health	1,659	1,641	1,614	1,553	1,622	1,623
Protection of persons and property	262	274	248	178	187	195
Social services and assistance	446	507	547	550	584	588
Transportation	283	242	201	212	228	236
Other	270	969	199	148	202	212
Total Expense	6,060	7,086	6,213	5,843	5,944	5,860
Annual surplus (deficit)	(752)	(1,676)	(900)	(281)	141	563

1 The Agriculture expense does not include significant Government support provided to the agriculture sector through tax concessions. In addition, certain agriculture programs, such as Crop insurance, are cost-shared by the Saskatchewan Government. The above table represents Saskatchewan Government expenses for agricultural programs, plus the total expenses of the cost-shared programs administered by the Saskatchewan Government. The contributions by the Federal Government and producers, towards these cost-shared programs, are recorded as revenue by the Saskatchewan Government. Funding provided by the Federal Government in millions amounted to $255 for 2005, $176 for 2004, $565 for 2003, $235 for 2002, $108 for 2001, $288 for 2000, $91 for 1999, $74 for 1998, $84 for 1997, $74 for 1996, $207 for 1995, $219 for 1994, $289 for 1993, $405 for 1992, and $294 for 1991. Funding provided by producers in millions amounted to $109 for 2005, $126 for 2004, $86 for 2003, $67 for 2002, $54 for 2001, $71 for 2000, $76 for 1999, $82 for 1998, $107 for 1997, $93 for 1996, $201 for 1995, $230 for 1994, $281 for 1993, $261 for 1992, and $121 for 1991. During 2003-04, the government changed its accounting treatment for transfers under the Net Income Stabilization Account (NISA). This Appendix does not include $46 million of NISA transfers related to years prior to 2004.

1997	1998	1999	2000	2001	2002	2003	2004	2005
3,125	3,116	3,155	3,224	3,203	3,023	3,369	3,399	3,590
853	675	1,088	1,553	1,029	1,518	1,414	1,290	1,995
907	781	622	943	1,293	903	1,244	1,141	1,474
549	568	652	582	642	426	453	734	843
791	983	784	909	924	1,070	996	1,121	1,318
6,225	6,123	6,301	7,211	7,091	6,940	7,476	7,685	9,220
284	251	323	693	322	837	1,329	701	780
148	152	160	158	176	204	236	240	231
1,224	1,175	1,111	1,026	947	891	894	928	903
132	96	110	109	150	141	109	138	277
853	855	886	901	1,019	987	989	1,062	1,208
142	119	202	168	149	156	243	186	154
1,682	1,761	1,931	2,174	2,223	2,424	2,558	2,745	2,944
190	203	230	262	266	299	303	317	319
586	700	747	785	783	784	794	792	821
248	273	272	273	303	337	328	291	317
191	212	260	256	292	363	347	385	422
5,680	5,797	6,232	6,805	6,630	7,423	8,130	7,785	8,376
545	326	69	406	461	(483)	(654)	(100)	844